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CANADA

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Publications

Prices and incomes commission

Commission des prix et des revenus

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July 16, 1970

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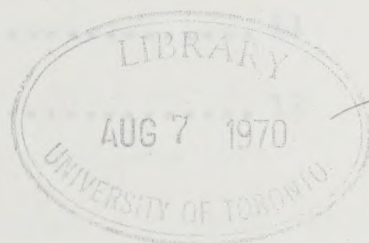
[6-5] FINE PAPER PRICES

Prices and Incomes Commission

Cost Increases.....

Summary.....

Conclusion.....



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FINE PAPER PRICES

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FOREWORD

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. The conference, held in Ottawa on Feb. 9-10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

- (a) Business firms generally, if called upon to do so, would reduce the number and size of price increase they would normally make in 1970.
- (b) More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on Feb. 10, 1970.

At a Federal-Provincial Conference of First Ministers held in Ottawa on Feb. 16-17, 1970, the federal government and all provincial governments endorsed the Commission's plan to call without delay upon business firms generally to follow the basic price restraint principle adopted by the National Conference on Price Stability. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

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Provision was made at the National Conference on Price Stability for a price review procedure whereby the Prices and Incomes Commission would review price increases to determine whether they comply with the agreed criteria.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

INTRODUCTION

Early in 1970 producers announced price increases for selected grades of fine papers. In notifying their customers they suggested that the increases were brought about by significantly higher raw material and labor costs.

The objective of this review is to determine whether the announced price increases of fine papers are consistent with the agreed criteria, and to investigate and report on factors that contributed to the increased costs of manufacturing fine papers.

The pricing criteria are designed to be applied to individual firms proposing or implementing price increases. Detailed information has thus been obtained from each of the major producers of fine paper in order to review the price increases of each as they relate to the criteria. Information was obtained on costs, prices, profits and other related matters.

Much of the information compiled for this study is confidential since it relates to costs and revenues of individual producers. The Commission has, however, presented as much detail as is possible.

FINE PAPER PRICES

Pulp and Paper Industry

Hundreds of grades of fine papers are manufactured in Canada. Some of the producing companies are completely integrated operations, embracing pulp-wood operations, pulp and paper making and marketing. Sales of fine papers by Canadian producers in 1969 were about \$200,000,000 and production totalled 570,000 tons.

The companies examined in this review account for over 90 per cent of industry output. The five principal Canadian fine paper producers are: Abitibi Provincial Paper Ltd., E.B. Eddy Co., Domtar Fine Paper Products Ltd., Rolland Paper Co. Ltd. and Island Paper Mills Division of MacMillan Bloedel Ltd.

Paper-Making Process

The fine paper manufacturing process has been basically unchanged for 50 years, although most older machines have been substantially modified. Newer installations are wider and operate at higher speeds than those produced in earlier years. Modern machines in Canada make paper of up to 190 inches wide at speeds in excess of 2,000 feet a minute.

While paper making is a complex operation, the following brief description will indicate the basic process. Harvested trees are transferred to the pulp plant and reduced to either groundwood or chips. The chips are dissolved by chemical process into sulphate or sulphite pulp in a digester under heat and pressure. The raw pulp is washed, screened, bleached and dried. Certain integrated operations use the pulp in its wet or slush form and realize cost savings. Chemical pulp represents the major raw material used in fine paper making.

Pulps are blended and mixed with small amounts of other raw materials such as clay, starch and titanium. This composition is mixed with large quantities of water and deposited on the fast-moving endless screen of a paper-making machine. Gravity, suction, pressure and heat remove the water and the fine paper receives its final surface finish. The paper is subsequently cut to the desired size, packaged and distributed.

Markets

The market for fine papers in Canada is concentrated in Toronto and Montreal. Most manufacturers do not have more than 200 customers and these fall into

three categories. There are independent paper merchants who buy from various producers in Canada and in other countries and warehouse and sell directly to a variety of customers. There are also captive paper merchants who concentrate on their parent company's products but often continue to handle other manufacturers' lines. Lastly, the fine paper manufacturers maintain "house accounts", i.e. they sell directly to certain large volume users.

The tariff on fine papers entering Canada ranged up to 22½ per cent until after the recent round of GATT tariff reductions. The majority of fine papers are imported under tariff item 19750-1. Lesser quantities are imported under tariff items 19700-1 and 19800-1. The rates applicable to these items have been reduced as follows:

	<u>Tariff Item 19750-1</u>	<u>Tariff Item 19700-1</u>	<u>Tariff Item 19800-1</u>
Prior to Jan. 1, 1968	22½%	22½%	22½%
Jan. 1, 1968	20½	21	21
Jan. 1, 1969	18½	19½	19½
June 4, 1969	12½	15	15

Although imports increased to some extent after the tariff reductions, the main impact has been lower prices on a number of grades of paper than would have existed under the old tariff schedules.

PRICES

During the earlier part of 1970, prices of selected grades of fine papers were increased by an average of \$13 per ton. Because prices of other grades were not changed, the average increase over the entire range of production was \$8 per ton.

The price increases initially announced by one producer in the first quarter of 1970 called for an average six-per-cent increase on selected grades. Because of competitive pressures, this price increase was reduced to the three- to four-per-cent range by April, 1970. Over the entire range of fine paper products, the price increase averaged about 2.5 per cent.

The increases implemented by April 1, 1970, on selected grades of fine papers brought prices for these grades up to the general levels in effect in 1967 and 1968. For example, in 1967 register paper was sold for \$16.50 per hundredweight. During 1968 and 1969 register paper sold for \$14.85 per hundredweight. It is currently selling for \$15.45 after the increase put into effect earlier this year.

Quoted Prices of Selected Fine Papers 1967-1970

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>April 1970</u>
	(dollars per cwt)			
Register Paper	16.50	14.85	14.85	15.45
Offset & Litho				
No. 1	18.70	18.70	18.70	19.35
No. 2	-	16.95	16.20	16.95
Bond, Mimeo & Duplicating	22.50	22.50	22.20	22.85

Cost Increases

In 1970 costs of making fine papers have increased. Principal cost factors are wood pulp and labor. The former is approximately 40 per cent and the latter is about 25 per cent of the cost of goods sold.

All of the principal companies, whether non-integrated or partially integrated, charge wood pulp to the fine paper manufacturing operation at the going market price.

The purchase price of bleached sulphate pulp during the first half of 1970 was about \$165-\$170 per ton, reflecting a strengthening of world markets. Companies report that the price in January, 1969, was approximately \$130 per ton. Further increases are being implemented at the present time. Prices of sulphite pulps have also moved up in a similar fashion.

Other material costs have increased by varying amounts. Such increases, while much less important than those applying to pulp, affect clays, titanium, starches and some chemicals.

Freight rates have increased in Canada and the United States and have resulted in higher costs of materials going to the mills as well as in the costs of outgoing shipments of finished products. Costs of electrical energy have increased in British Columbia, Ontario and Quebec.

Most labor contracts are for two years and with one exception contracts expire in 1970. New labor contracts recently negotiated in the pulp and paper industry will increase labor costs by about 35 cents per hour in the first year. In integrated operations, a 35-cent-per-hour increment in labor cost is estimated to represent an increase of about \$7 per ton in the manufacturing cost of fine papers. Labor costs have been approximately \$70 per ton before the current round of negotiations. Selling prices of most fine papers range from \$300 to \$400 per ton.

Labor cost per ton of fine paper remained reasonably constant from 1966 to 1969. This consistency

has been obtained by technological improvements to older paper-making machines and by the installation of newer, more efficient, high-volume machines. If higher projected volumes of output materialize in 1970, this may result in partially off-setting increased wage rates.

This review indicates, therefore, that the cost increases for pulp have accounted for more than half of total cost increases over the last year. Labor costs in paper making have increased to a lesser degree.

SUMMARY

Companies reported increased manufacturing costs for 1970 ranging up to \$30 per ton over 1969. The announced increase in selling prices was \$13 per ton on selected grades.

Costs and revenues of each of the five main producers were obtained and studied separately. For three companies lower net profits are projected for 1970 compared with 1969. In the case of the other two companies it was not possible to use 1969 as a normal

base period. One of the companies realized no earnings in 1969 while the other earned less than one per cent on sales. Even in 1968 the profits of these same two companies were very modest. Their projected 1970 earnings are well below the levels of 1968.

Since the companies submitted their 1970 revenue and cost data their prospects appear to have worsened due to the floating of the Canadian dollar and a higher wage settlement pattern than was expected earlier in the year. Also the cost of pulp has increased to a greater degree than was forecast when the 1970 cost data were prepared.

CONCLUSION

The examination conducted by the Commission indicates that all the companies reviewed are likely to absorb a significant portion of cost increases in 1970 and therefore are within the criteria.
